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RUEHSH/AMCONSUL SHENYANG 0020
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SUBJECT: INFOSYS FOUNDER ON IPR IN CHINA, HIRING IN U.S.

REF: SHANGAI 785

1. (SBU) SUMMARY. In a wide ranging discussion with us, Founder and Chairman of the Board of Infosys Technologies Narayana Murthy discussed the state of Infosys, with particular emphasis on its expansion plans outside of India. Murthy told post that his company's expansion into China has been hampered by his clients' concerns about China's poor intellectual property protections. He also said Infosys plans to dramatically expand its hiring of U.S. graduates from its current level of 300 per year to 3000 students in 2008. Murthy acknowledged that the appreciation of the Indian rupee has hurt his company, but did not appear overly concerned. END SUMMARY.

LACK OF IPR PROTECTIONS HURTS CHINA BUSINESS

2. (SBU) When we asked about Infosys's expansion into China, Murthy admitted that it is not going as well as he hoped. Murthy said his clients, particularly European and American ones, are reluctant to have their work done in China due to their concerns about China's poor intellectual property protections. He explained that "we have to spell out all of the locations where we'll do their work in our Master Agreements" and that clients are initially reluctant to allow China to be included. Murthy said it takes time -- four to five years -- to overcome that reluctance. He said he understands his clients' misgivings, pointing to a recent visit he took to China. Stepping out of his central Beijing hotel to go for a stroll with Peter Bonfield, CEO of British Telecom, the two turned the corner and encountered a sidewalk vendor selling pirated Microsoft and Windows products. Murthy said that Bonfield jokingly asked the vendor if he had Finacle (an Infosys banking software product) and the vendor replied "I can get it for you tomorrow."

3. (SBU) Murthy said that right now Chinese leadership does not understand the impact of their weak intellectual property rights protections. But he was optimistic about the long-term potential, saying that "there is nobody better than the Chinese at solving a problem once they are serious about it." Murthy also described challenges on the human resources front in China. He said qualified graduates are available, but those who have sufficient English skills command a high premium. He also said retention is more difficult in China than in India, as Chinese professionals are more willing to leave for a higher salary where Indian ones value institutions a bit more.

INFOSYS TO HIRE TEN TIMES MORE U.S. GRADUATES

4. (SBU) Murthy said Infosys is planning a major expansion of its

U.S. hiring. He explained that they have been hiring around 300 U.S. graduates per year for the last few years but that they plan to increase that to 3,000 in 2008. To date, Infosys has brought its U.S. hires to its Mysore campus for their five months of new-hire training. But Murthy said they are planning to set up a U.S. training center to deal with the major increase in U.S. staffing. Murthy said ninety-five percent of the U.S. hires will work in the United States, with a small number sent to work in other countries.

PHILOSOPHICAL ON THE RUPEE APPRECIATION

15. (SBU) Murthy was philosophical when discussing the effect of rupee appreciation on Infosys. He admitted that it has a negative impact on the company's profitability, but said "one of our founding principles is to focus on things that you can control" and that the currency appreciation is "a macroeconomic effect which we have to live with." He said it gives Infosys an opportunity to try to improve how it goes about doing its business. Murthy told us that stepping back and looking at the phenomenon "as an Indian," it is a benefit since India imports more than it exports. Murthy added that the impact on a big firm like Infosys is relatively small and that he feels for smaller businesses, especially textile firms, whose tight margins are really squeezed by the rupee's appreciation.

HOPPER